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COPY NO. 17
OCI NO. 1416/57

21 March 1957

CURRENT INTELLIGENCE WEEKLY SUMMARY



DOCUMENT NO. 1
NO CHANGE IN CLASS. ☐
☐ DECLASSIFIED
CLASS. CHANGED TO: TS
NEXT REVIEW DATE: 1989
AUTH: HR 70-2
DATE: 22 Aug 79 REVIEWER:

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PART I

OF IMMEDIATE INTEREST

MIDDLE EAST DEVELOPMENTS

Israel's leaders continue to warn of the consequences of Egypt's actions and the UN's unwillingness or inability to keep Nasr from restoring the status quo ante bellum. Foreign Minister Meir, following consultations in Washington, called for a reversal rather than a mere cessation of Egypt's progress in taking over the Gaza strip, while Ben-Gurion said in a magazine interview that if Egypt sought again to block Israel from using the Gulf of Aqaba, the two nations would meet on the battlefield instead of the conference table.

Gulf of Aqaba

An Israeli ship sailed this week from Eilat past the present UN positions formerly used by the Egyptians to blockade the entrance of the gulf. Apparently, however, the voyage of this ship--the Pandora, flying a Costa Rican flag, which has also been referred to as the Malkat Sheva (Queen of Sheba)--was not regarded by the Israelis or the Egyptians as a "test" of Israel's claims to free and innocent passage of the straits. The promised test of freedom of navigation in the straits will probably have to await the evacuation of the UNEF.

Another Israeli-chartered vessel, the Italian Caterina Madre, passed the straits without benefit of publicity on one of its regular runs between East Africa and Eilat. Still a third vessel, flying the Danish flag, was expected at Eilat at any time.

Gaza

Egyptian president Nasr's attitude throughout the storm and fury over Gaza has been that Egypt's action in taking over administration of the strip is no different than its assumption of authority in Port Said after the UN had occupied that city. He and other Egyptian officials were profuse with assurances that the situation would be kept calm, and in fact the new Egyptian "administrative governor" appealed publicly to Gaza's inhabitants to give full cooperation to the UNEF.

However, the press has "suggested" that the UNEF's headquarters should be moved from the Gaza strip south to El Auja in the demilitarized zone which the Israeli forces have long occupied in violation of the 1949 Egyptian-Israeli armistice agreement.

Suez Canal

An Egyptian "memorandum" circulated to a number of powers including the United States and the USSR has outlined Egypt's present position on the Suez Canal. The Nasr regime continues to view the nationalization of the canal company as an affair strictly between itself and the company's stockholders and to consider its obligations toward canal users as fully covered by adherence to the Constantinople Convention of 1888. A statement that Egypt would set aside at least as large a percentage of toll income for development of the canal as was devoted by the

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company to the same purpose was billed as a concession.

Despite the fact that the memorandum--originally designed as a "communiqué"--ignored both the six principles agreed on between Egypt and the West last October and more recent four-power proposals forwarded to Cairo through UN Secretary General Hammarskjold, Egyptian foreign minister Fawzi insists that the door is "wide open" to further negotiations. Presumably a start on such negotiations, as well as further discussion of the Gaza problem, is being undertaken by UN Secretary General Hammarskjold during his current visit to Cairo.

Jordan

Conservative forces in Jordan seemed very much on the defensive last week. The three-

day celebrating of the termination of the Anglo-Jordanian treaty turned into a demonstration of the left-wing nationalists' ability to turn out the "street" and to defy King Hussain's anti-Communist edicts. The police, on whom Hussain's supporters have counted should they need physical force in a showdown, proved again to be impotent.

Hussain himself, when pressed by Ambassador Mallory, seemed to have no firm plans or even ideas as to how he might achieve his objective of getting rid of the Nabulsi cabinet or even of its leading leftist members.

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CONSEQUENCES OF MAGSAYSAY'S DEATH

The sudden death of President Ramon Magsaysay on 17 March has ushered in a period of political instability and maneuvering in the Philippines. Magsaysay had been widely conceded re-election next November in what was shaping up as a clear-cut contest with ultranationalist Senator Claro Recto. The campaign is now wide open and the scramble for nominations has already begun.

It is unlikely there will be any immediate changes in Philippine domestic or foreign

policies. The new president, Carlos Garcia, has pledged to maintain the present cabinet and to carry out Magsaysay's programs "to the last item." The 60-year-old Garcia, however, lacks Magsaysay's personal magnetism and drive, and, as a party man, will be closer to the Nacionalista Party's "Old Guard." As a result, Magsaysay's reform programs may suffer from neglect.

Presidential Campaign

With regard to the presidential campaign, Garcia, as

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the incumbent, will be in a strong position to obtain the Nacionalista nomination next summer. His most powerful competitor now is Senator Recto, the chief critic of American policies in the Philippines, who had planned to run as an independent against Magsaysay. Recto has indicated he intends to stay in the race and will withdraw for no one. He has less public or party following, however, than the influential Senator Laurel, and it is not impossible that there will be an eventual deal for Recto to back Laurel or his son, House Speaker José Laurel, Jr., possibly in return for the vice presidency.

Other potential Nacionalista presidential aspirants include the sugar bloc's Senator Fernando Lopez, business spokesman Senator Gil Puyat, Manila mayor Arsenio Lacson, Cebu mayor Sergio Osmena, Jr., son of a former Philippine president, and Senator Emanuel Pelaez, chairman of the panel negotiating for modification of the American military bases agreement.

Opposition Liberal Party leaders, who had hoped to survive by eventually endorsing Magsaysay, are now reported to be hopeful of a Nacionalista Party split. They will probably now run a candidate of their own, and are pushing prewar Speaker of the House, José Yulo. One Liberal politician has said the party might run Ambassador Carlos Romulo despite his meager domestic following. Senator Quintin Paredes, a former Liberal stalwart, also claims to have been approached concerning the Liberal nomination.

This maneuvering to fill the vacuum created by Magsaysay's

death will intensify both before and after the nominating conventions this summer. Under these circumstances, a resurgence of corruption and politically inspired disturbances on the pattern of the 1949 elections may be anticipated. There may also be renewed attempts to use the Philippine armed forces and constabulary, which Magsaysay kept out of politics, as a political instrument.

Relations With US

For the present, Philippine security officials are determined to preserve order for the Garcia administration, but are concerned that the unstable political situation may favor neutralist and leftist elements. In this connection, Recto is already campaigning against the country's pro-American orientation, and other candidates are likely to feel compelled to demonstrate their pro-Filipinism in attacks on some American policies toward the Philippines. In particular, the suspended negotiations over American bases will be highlighted, and it is unlikely that the Garcia administration will feel inclined to a compromise settlement prior to the elections.

Preoccupation with domestic politics and the increasing emphasis on nationalism may create a favorable climate for a limited political gain by the weakened Philippine Communists. The most recent Communist tactical document emphasized the possibility of exploiting "bourgeois nationalism" and implied covert support for the election of Recto. The Communists will also try to develop an opportunity for more overt activity by encouraging elements presently sympathetic to an amnesty.

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None of the likely presidential contenders, however, is pro-Communist. While the possible loosening of ties with the United States and the development of some contacts with the Communist bloc may be raised

during the campaign, all of the aspirants have at some time recognized the need for cooperation with the United States and the strong popular approval of Magsaysay's avowed pro-American orientation.

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INDONESIAN CABINET NEGOTIATIONS

The insistence of the Nahdlatul Ulama (NU) Party that the anti-Communist Masjumi party, Indonesia's largest Moslem party, be included in the cabinet, despite President Sukarno's demands to the contrary, has complicated the negotiations being conducted by formateur Suwirjo of the National Party (PNI). This Moslem unity could forestall Sukarno's attempt to eliminate the Masjumi as a political force and to increase Communist influence in the government. The NU is also reported to be negotiating with Sukarno to leave the Communists out of the projected advisory council.

The NU is Indonesia's third largest party and the second largest Moslem party. Since the 1955 elections, it has been the pivot of Indonesian party politics. The PNI is the largest party.

The Communists are still insistent that the Masjumi must be kept out of the cabinet if they are excluded. The party's secretary general has openly endorsed the threat of a general strike if this is not done.

Although Sukarno is expected to remain adamant on his concept as long as he feels there is any possibility of

preserving it in anything like its present form, eventually he will probably attempt a compromise. In the meantime, he has ignored the clamor of the non-Javanese leaders and the Moslem parties for the participation of former vice president Hatta, a Sumatran and a strong anti-Communist, in the government in a political capacity.

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Meanwhile, the army commanders' conference in Djakarta has ended with a call for preservation of the central government's authority, and a recommendation that Sukarno and Hatta work together to solve the country's problems.

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PART II

NOTES AND COMMENTS

NEW SOVIET DISARMAMENT PROPOSALS

The outstanding feature of the Soviet disarmament proposals submitted by Deputy Foreign Minister Zorin to the UN Disarmament Subcommittee in London on 18 March was the effort to appear responsive to the United States position as outlined to the UN General Assembly by Ambassador Lodge on 14 January. Zorin observed that, "Our colleagues on the subcommittee cannot but see that this Soviet proposal is another step toward an approximation of the views of the four (Western) powers."

The Soviet plan contained three main parts: (1) another demand for an immediate ban on testing of nuclear weapons independent of a general disarmament agreement; (2) a restatement of the proposal of 26 March 1956 for the creation of a European zone of limitation and inspection of armaments, either as part of a general agreement or "separately as an independent agreement"; (3) a comprehensive two-stage plan for the reduction of armaments and armed forces and the prohibition of atomic and hydrogen weapons.

This latest version of the USSR's familiar omnibus disarmament scheme contains three features directly aimed at demonstrating movement toward the United States position:

First, Zorin announced that the USSR would accept aerial inspection in a zone extending 500 miles on either side of the line dividing the NATO and Warsaw pact nations. The Soviet proposals of 17 November 1956, which first introduced the idea of

limited aerial inspection in Europe, had promised only "to examine the question" of applying such a method of inspection. This new modification apparently was intended to appear responsive to the American proposal for "progressive installation of inspection systems."

Moscow included for the first time a proposal for international control of "guided rockets," again in response to the American proposal of 14 January "to bring the testing of missiles under international inspection and control."

Finally, Moscow rephrased its standard provision on halting the production of nuclear weapons to include the statement that "the future manufacture of fissionable materials shall be earmarked exclusively for nonmilitary purposes." This was clearly intended to conform to the US formula that "all future production of fissionable materials shall be used or stockpiled exclusively for nonweapon purposes."

The new formulation of Moscow's standard disarmament scheme also contained a new provision which would prohibit nuclear powers from stationing atomic military units or placing

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atomic and hydrogen weapons "beyond their national frontiers" --an obvious extension of recent Soviet propaganda warnings about the dangerous consequences of American plans to increase the number of atomic support commands abroad.

This latest Soviet plan follows the pattern of Soviet proposals over the past two

years in attempting to place the Western powers on the defensive. It accepts certain Western positions, on such issues as force levels, and adopts partial features of Western proposals, such as President Eisenhower's aerial inspection plan and Eden's suggestion for the limitation and inspection of forces in a zone in central Europe.

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BRITAIN FACES ECONOMIC CRISIS IN NATIONWIDE STRIKES

Britain's vital export program is gravely threatened by the prospect of widespread industrial stoppages. A nationwide walkout of 200,000 shipbuilders began on 16 March. Other unions representing over 2,500,000 workers in heavy industry will begin calling out other elements on 23 March. If all the workers go on strike as scheduled, within the next two weeks, a greater number of men will be out than at any time since the 1926 general strike. A railway workers' union is also threatening to call out its 300,000 members. Prolonged strikes would jeopardize Prime Minister Macmillan's whole economic plan and go far to destroy public confidence in his government.

A call for strike action to implement a demand for across-the-board 10-percent pay raises came from the powerful Confederation of Shipbuilding and Engineering Unions, whose nearly 3,000,000 skilled workers belong to 40 individual trade unions. In addition to the booming shipbuilding industry, the confederation's jurisdiction includes airplane, automobile, and other machinery industries which have played an increasingly large part in Britain's export program.

"Engineering" products accounted for 40 percent of the total value of British exports in 1956, an increase of nearly 14 percent over the 1955 figure, and the value of such sales to the dollar area increased by 23 percent. The government is convinced that the engineering industries offer the best potentialities for a further expansion of exports. Its plan to reduce its defense program is admittedly designed mainly to allow these industries, 15 percent of whose output is for defense, to concentrate on the export market.

The prospect of extended industrial stoppages comes at a time when some easing of the chronic labor shortage and of inflationary pressures was promising success for the Macmillan government's effort to restore confidence in Britain's international payments position. The balance of payments and gold and dollar reserves were beginning to show an improvement from the Suez financial crisis, but the American embassy reports that the government fears the strikes may now precipitate a new run on the pound.

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The strikes have already lowered the Macmillan government's prestige at home. The employers' refusal to discuss the union's demands has met heavy press criticism, with even pro-Conservative newspapers

favoring a wage increase to meet the 3.5-percent rise in the cost-of-living index. Large segments of public opinion will hold the government responsible for failing to avert the stop-

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CONTINUING INSTABILITY IN CUBA

The unsuccessful attack on the presidential palace in Havana on 13 March--aimed at assassinating President Batista--is symptomatic of increasing political unrest in Cuba, and further disturbances or revolutionary outbreaks seem likely. The government probably will intensify repressive measures against the opposition. On 20 March, there were reports, denied by the government, of heavy fighting in eastern Cuba.

The apparent leaders of the attack--both of whom were killed--were José Echeverría, head of the Communist-infiltrated Federation of University Students, and Menelao Mora, long known as a conspirator connected with ex-president Prio. Echeverría had signed a pact with rebel leader Fidel Castro last summer.

Batista's regime has been seriously weakened in recent months by its failure to control intensified antigovernment activity despite the use of extreme repressive measures under prolonged suspension of constitutional guarantees. The latest outbreak climaxed a period of increasing terrorism which followed the uprising on 30 November 1956 in the southeastern city of Santiago de Cuba and the subsequent small invasion of Oriente Province by

Castro's men. Public opposition, already strong in Oriente, has increased as a result of the administration's inability to restore order and offer an acceptable plan for free and early general elections.

The army is reported not in control of the situation in Oriente's Sierra Maestra Mountains, where Castro's force, which is believed now to have about 300 members, is located.

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The American embassy has received opposition reports that Castro plans to stage a military action in the near future as a show of strength.

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The government appears to retain the support of a majority of the armed forces, but prolongation of political unrest may reduce the support of important military elements.

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PATHET LAO SETTLEMENT STALLED

Prospects for an early settlement of the Pathet Lao problem faded with the failure of the two sides to resolve their differences prior to the adjournment of the Laotian National Assembly on 15 March. Although the negotiating commissions will remain in session, any final action on a settle-



PETSARATH

ment will probably be deferred at least until May when the

assembly reopens. This stalemate is a reverse for Prime Minister Souvanna Phouma, who has risked his political career on his ability to settle the Pathet Lao issue. He probably now views the return from exile this week of Prince Petsarath as offering a new channel through which to seek an agreement.

Petsarath's impending return will add a new dimension to the situation in Laos. Petsarath, who expects to become the next premier, reportedly favors a "Swiss-type" neutrality for Laos and would continue to accept American aid if given "unconditionally." He is an authoritarian who would provide strong leadership for Laos, but his exaggerated self-confidence may make him susceptible to the belief that he can manipulate the Communists to his own advantage.

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PEASANT DISCONTENT IN COMMUNIST CHINA

Recent remarks by Chinese Communist officials tend to lend substance to reports suggesting that China's peasants feel discriminated against and that their grumbling is a matter of some concern to the authorities in Peiping.

Peasant grievances seem to be largely of economic origin. Two of the last three harvests apparently failed to meet the

regime's expectations. A high official has said that larger areas were affected by natural calamities in 1956 than in 1954, the year of the great Yangtze flood. Food is in short supply and rationing has been tightened.

The food distribution system is such that peasants suffer more in a shortage situation than urban dwellers. Vice

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Premier Po I-po has admitted to peasant groups in recent speeches that consumption levels of the urban worker were about double those of the peasants, but he advised his peasant listeners to stop complaining and remember that they are now better off than ever before.

The regime has been hard put to live up to the promises it held out during the socialization drive in 1955 and 1956. By last summer, according to official press stories, peasants were trying to leave the new co-operatives, apparently convinced they could do better on their own.

The state's grain and cotton procurement programs are lagging badly, and there has been a decline in secondary crop production, apparently as a result of reduced incentives. The output of vegetable oil has not yet reached pre-1949 levels, the number of hogs has dropped alarmingly, and there have not been enough farm draft animals to meet work needs.

Financial stringencies have forced the regime to take steps decidedly unpopular in the countryside. It failed to make good on promises that 90 percent of those joining co-operatives would increase their income in 1956. Late last year it put considerable pressure on peasants to repay agricultural loans which fell due during 1956. "The People's Bank is not a relief organ like the Red Cross," commented an official banking publication. Later announcements indicated that loans to peasants in 1957 would be sharply reduced.

By granting certain limited concessions intended to make the new co-operatives financially more attractive, the regime will probably be able to keep peasant discontent within controllable limits. Prices on some farm products have been raised, grain procurement figures have been lowered, and the export of edible oil and pork has been reduced by two thirds. (Prepared jointly with ORR)

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SOVIET INITIATIVES TOWARD JAPAN

A number of moves during February and March suggest that the USSR is again taking advantage of its strong negotiating position vis-a-vis Japan to gain political and economic advantages prior to possible peace treaty discussions.

The USSR may be preparing to evacuate the Habomai and Shikotan Islands.

Installations on the islands reportedly included a radio station, whaling plant, living quarters, a dockyard and power station. The islands have also been used as a base for Soviet patrol boats.

Although the islands have no strategic importance, the USSR has insistently presented them as its only direct territorial concession to Japan. The USSR agreed in the 19 October

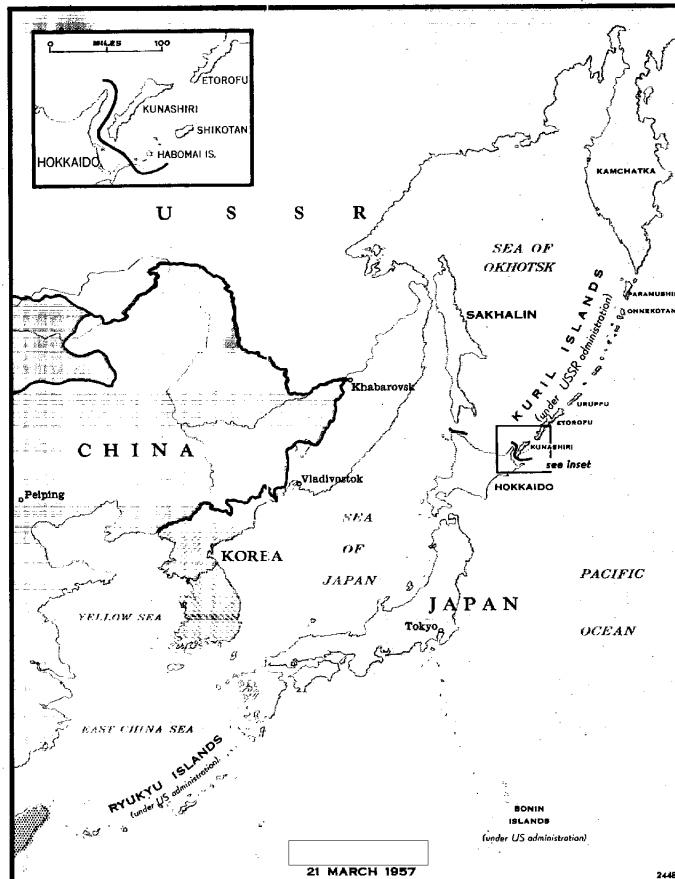
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declaration normalizing relations to hand them over to Japan on conclusion of a peace treaty. The Soviet activity on the islands suggests the USSR may be preparing to enter into discussion of the treaty itself. In addition, the Russians may regard evacuation of the islands as useful in encouraging a negative Japanese attitude toward US forces in Japan, the Bonins and the Ryukyus.

Japanese prime minister Kishi has publicly discounted prospects for opening peace treaty negotiations this year and stressed that such negotiations would depend on prior settlement of such issues as fishery quotas, trade agreements, and Japanese nationals missing in the Soviet Union.



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Soviet-Japanese fisheries problem must be solved in conjunction with trade problems. Soviet officials have held to their original catch estimates in the currently deadlocked annual fishery negotiations. Soviet delegates have insisted on a catch limit of 80,000-100,000 metric tons, which they allege was agreed to by Agriculture and Forestry Minister Kono in Moscow in May; this contrasts with Japanese demands for 140,000 metric tons.

Contacts with Japanese businessmen and trade associations have been significantly expanded since December. Khrushchev has stated that Russia will order various items from Japan in connection with the development of Siberia. Khrushchev has also stated that the Soviet Union is interested in direct air and sea routes to Japan.

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In an interview with a Japanese newsman on 19 March, Khrushchev insisted that the

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TOKYO MAY SEEK CHANGES IN US-JAPANESE SECURITY TREATY

The Japanese government and its conservative supporters appear to be considering a request to revise the security treaty with the United States. Prime Minister Kishi, who hopes to visit Washington in May or June, has stated publicly that his visit will be one stage in gaining the withdrawal of American forces and the abolition of this treaty.

Growing popular Japanese dissatisfaction over the present relationship with the United States has focused on the security treaty as the "cornerstone" of US-Japan relations" which allegedly has forced Japan into a subservient role. A Foreign Ministry official recently stated that a "sensible" revision which the Socialists could not oppose should be made to strengthen the conservatives "before it is too late."

This official said it now would be feasible for Japan to offer to participate in defending the Ryukyu and Bonin Islands in a mutual defense treaty. Such a treaty apparently would satisfy long-standing Japanese aspirations for equality with

the United States and would not conflict with Japan's view that constitutional provisions preclude its participation in the defense of non-Japanese areas. Since the Ryukyus and Bonins are American-administered, however, the Japanese apparently hope that their participation would call for an American commitment on defense of the main islands in accordance with the usual two-way responsibility of a mutual defense treaty.

The Japanese, while vague concerning specific revisions of the treaty, have indicated they want an American commitment to defend Japan in return for base rights. They also want to revise the treaty to limit its duration and provide for abrogation by either party.

Debates involving the nuclear weapons issue during the present Diet session suggest that the Japanese will seek an equal voice in determining the strength, the type of armament, and the employment of American forces stationed in Japan. Kishi may also request a timetable for the withdrawal of these forces.

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USSR ECONOMIC REGIONALIZATION UNDER DISCUSSION

Some characteristics of the proposed reorganization and regionalization of the Soviet economy are beginning to emerge in recent Soviet discussions of the plan. In the first place, there is a hint that the economic regions will not cut across the boundaries of existing Union Republics. In the second place, there is a suggestion that rather than immediately abolish the existing

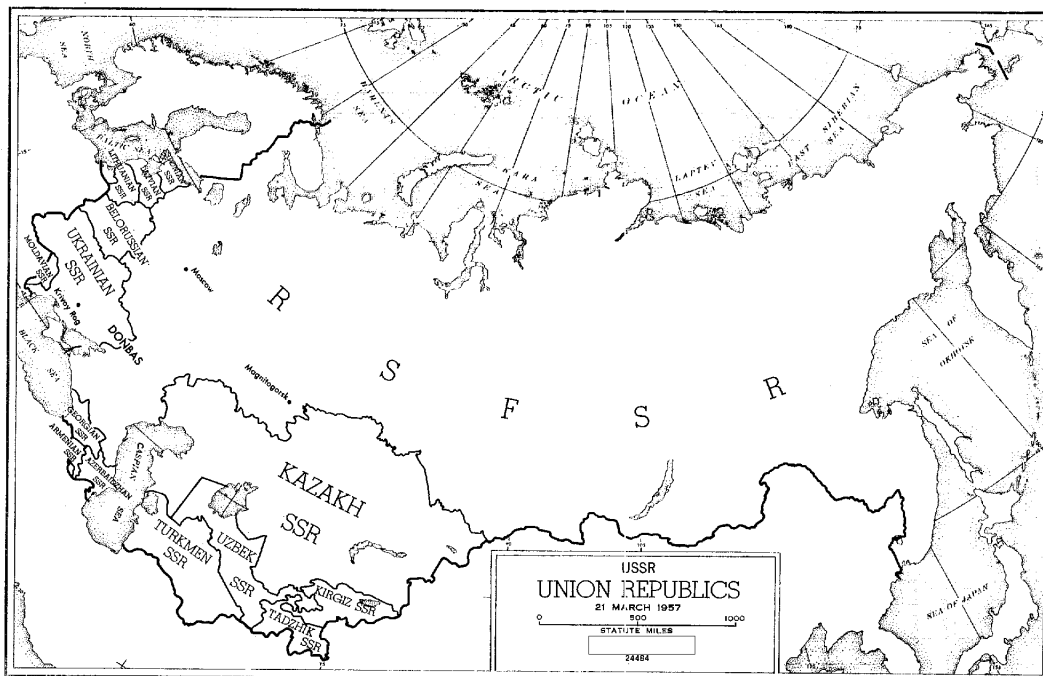
economic ministries, as Khrushchev and Baybakov implied earlier, Moscow will for the time being probably retain a few central ministries with broad powers.

An article in the latest issue of Planned Economy expressed the opinion that the smaller Union Republics should constitute economic regions, while larger republics, such as the RSFSR, Ukraine and Kazakhstan,

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be divided into several regions. Such a solution would be politically convenient but, in some cases, economically irrational. The Donbas coal-steel area, for example, extends into the RSFSR from the Ukraine. Long Range Planning Chief Baybakov indicated that the problem of whether to put an important iron ore area located in Kazakhstan in the same economic region with the Magnitogorsk steel combine in the RSFSR had not yet been resolved.

Madame Furtseva, candidate member of the party presidium, reportedly indicated in late February that "Moscow" would be an economic region. Metropolitan Moscow produces some 20 percent of Soviet gross industrial output.

A Ukrainian economic official has told an American embassy officer that according to "preliminary" plans, the present economic region embracing the Ukrainian and Moldavian

Republics would be divided into seven regions, one encompassing Moldavia, the other six the Ukraine. This plan would leave the Donbas divided between the RSFSR and the Ukraine. It would also separate the Krivoy Rog iron ore deposits from the complementary Donets coal basin.

The Ukrainian official said a possible first step in reorganization might be the creation of enlarged central ministries, "such as, say, the Ministry of Heavy Industry like that once headed by Ordzhonikidze." Such a development could lead to a central ministerial structure similar to that of the 1930's. A consolidation of ministries, which apparently runs counter to statements by Khrushchev and Baybakov that all centralized economic ministries would be abolished, may be under consideration as a first step in the eventual elimination of these ministries.

The tentativeness of published and oral discussion so

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far suggests a "go slow" approach to the complicated re-organization problem. No time limit for a solution has been revealed; the February party plenum merely called on the

party central committee and the Council of Ministers to submit specific proposals to the Supreme Soviet, which is scheduled to meet again by midyear..

(Prepared by ORR) 25X1

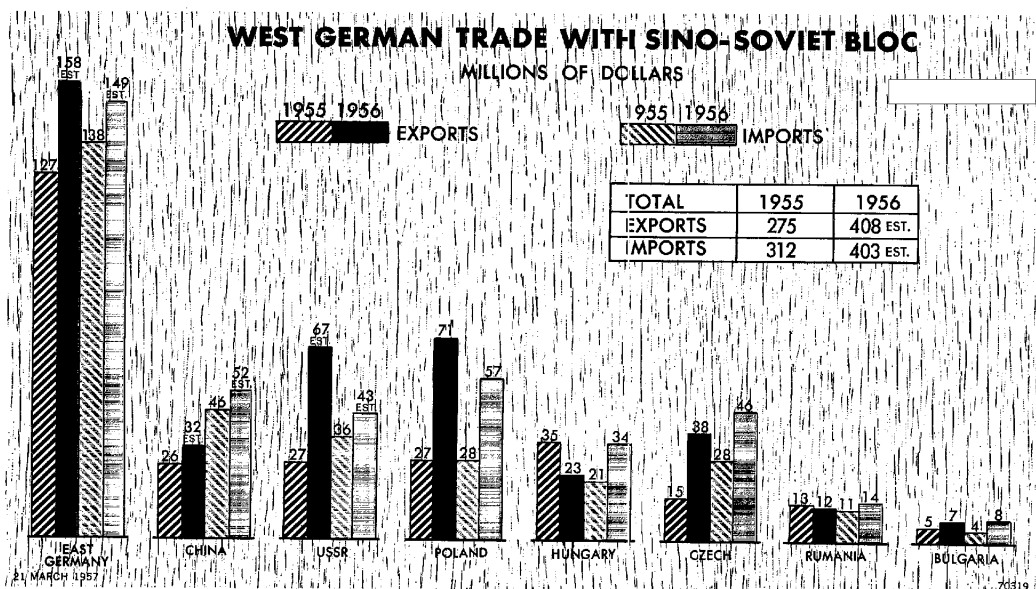
TRENDS IN WEST GERMANY'S TRADE WITH THE BLOC

West Germany's limited trade with the Sino-Soviet bloc rose about 21 percent last year. Seeking further increases, Bonn reportedly is considering an economic agreement with the USSR, the establishment of commercial missions in the Satellites, and a semiofficial trade delegation to Communist China. There also is growing pressure for a relaxation of COCOM restrictions on the export of strategic goods.

The 1956 increase brought West Germany's trade with the bloc to about 6 percent of its total foreign trade--still far short of prewar Germany's level

of 14.5 percent, even though trade with East Germany is now included in the bloc total. Trade with some Satellite countries more than doubled during 1956. All political factions agree that an expansion in East-West commercial relations is desirable and the pattern of increases will probably continue through 1957 but at a slower rate, reflecting the reduced rate of German economic growth.

Bonn has handled trade and payments with most bloc countries through the semiofficial East-West trade organization, Ostausschuss, and trades on a



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private barter basis with the others. Pressure from business interests and the opposition political parties to normalize trade relations with Communist China and the Soviet Union has been mounting, and the Ostauschuss will probably send a delegation to Peiping this year. Bonn is reported considering the establishment of commercial missions in the Satellites to expand trade and increase technical and cultural exchanges.

The recent exchange of notes between Chancellor Adenauer and Soviet premier Bulganin indicates that trade talks will be held soon. To minimize any political implications, West Germany will probably insist on a trade and payments agreement, renewable annually, rather than a five-year trade and friendship treaty as the USSR has requested. Chancellor Adenauer, however, recently proposed an agreement on consular powers with the USSR.

The Foreign Ministry has assured COCOM that no strategic

goods will be shipped under these various agreements, but West German exporters have increasingly pressed for exceptions from the COCOM embargo lists. While Bonn does not wish to scrap the export control system, there is less willingness to support the present level of controls. Bonn's economic defense program will probably be relaxed, as the Germans, along with the British, have indicated during the past year a wish to revise the COCOM lists and the China differential.

West Germany's future trade with the East depends largely on the availability in the bloc of items which it requires, and West Germany is unlikely to find enough of these to cause any significant diversion of its trade from West. Bonn's formal economic ties to Western Europe in the Coal-Steel Community and the proposed Common Market also make it improbable that trade with the Soviet bloc will approach the prewar level.

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PART III

PATTERNS AND PERSPECTIVES

THE EURATOM AND COMMON MARKET TREATIES

Signing of the EURATOM and Common Market treaties, scheduled to take place in Rome on 25 March, will mark the most considerable advance to date in the effort to integrate Western Europe. Ratification of the treaties, prospects for which seem favorable at present, will be a long step toward the economic unification of the six Coal-Steel Community countries and may accelerate the political integration of this highly industrialized area of 160,000,000 people.

The arrival of the EURATOM and Common Market projects at the ratification stage is the result primarily of the determination of the governments

These plans were accepted in principle at the foreign ministers' conference in Venice in April 1956, thus launching the treaty negotiations which lasted until 20 February of this year, when it was announced that the remaining difficulties had been overcome.

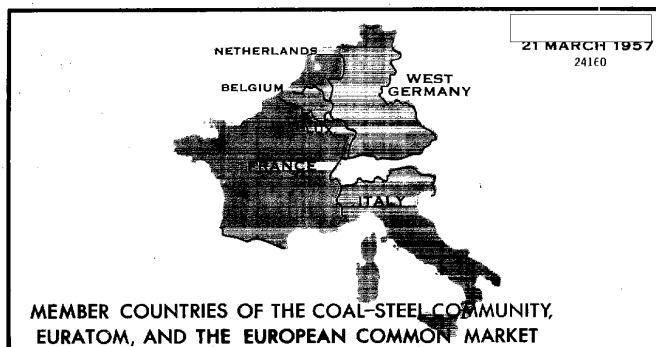
General Objectives

Like the CSC, on which they are essentially patterned, the EURATOM and Common Market projects are addressed to specific economic problems: EURATOM to Western Europe's steadily mounting energy deficit. This deficit was dramatically underlined by the Suez Canal closure and, unless reversed, will compel the six member countries to resort to imports for approximately 40 percent of their energy requirements by 1975.

A crash program for producing power from nuclear energy sources, now being planned under EURATOM's auspices, would cut these estimated import requirements approximately in half by checking the

rising rate of energy imports at the 1962 level. This program would involve the annual installation from 1962 on of nuclear power plants with a capacity of 3,000,000 kw., attaining a total nuclear capacity of 15,000,000 kw. by 1967.

The Common Market, which is to come into full operation over a period of 15 years, is expected to have a less dramatic



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of France, West Germany, Italy and the Benelux countries to achieve in the economic sphere the closer ties which failed to materialize in the military and political fields. An initiative along these lines was approved by the foreign ministers at a meeting in the Italian city of Messina in June 1955, and during the next nine months plans were drafted under the guidance of Belgian foreign minister Spaak.

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but more extensive impact on the economies of the member countries. By gradually instituting the free circulation of goods, labor and capital, it is designed to bring the advantages of competition, specialization and rationalization to a mass market comparable in size to that of the United States.

Although specific goals have not been set, it is hoped some of the favorable experiences of the CSC will be repeated. For example, under the CSC intra-European trade in coal and steel products approximately doubled over pre-CSC levels and steel production increased by 35 percent. Spaak, the chief architect of the Common Market, has predicted it will make Western Europe the "leading commercial power of the world."

Institutions

The highly complex provisions of the two treaties are to be administered through institutions which are modified versions of those prevailing within the CSC. By a separate protocol, the functions now exercised by the CSC court and assembly will be assumed by the court and assembly servicing EURATOM and the Common Market.

The delicate division of powers among these institutions --particularly between the councils of member state representatives and the "supranational" executive commissions-- is the result of a long debate. Critics of the treaties, pointing to the numerous instances in which the commissions must seek the consent of the

EURATOM**TREATY PROVISIONS:**

In general EURATOM is to have powers over the peaceful uses of atomic energy roughly comparable to those of the US Atomic Energy Commission. Specific powers include:

- (1) Supply: ownership of certain nuclear fuels; with some exceptions, monopoly of all buying and selling contracts for nuclear materials.
- (2) External Relations: exclusive negotiating rights on atomic energy matters with nonmember countries and enterprises--assuming all member rights and obligations under previously concluded bilateral agreements.
- (3) Security Control: full powers to ensure that nuclear materials are not diverted to illegal uses.
- (4) Research: an initial \$215,000,000 program during the first five years; co-ordination of other research programs in the community.
- (5) Investment and Finance: administer national contributions, float loans, and, subject to national approval, impose direct taxes; power to construct nuclear installations too expensive to be undertaken by any one country; advisory functions on all other nuclear investments.

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councils, have charged that the final compromise is biased in favor of the individual member nations. While it is true that on some major points the member states retain, by virtue of the unanimity requirement, power both to delay and to veto, the commissions nevertheless exercise exclusive jurisdiction in important areas of activity. Moreover, in many instances the council acts by a qualified majority in accordance with a voting formula which deprives any member of a veto.

Strengths and Weaknesses

Critics of the EURATOM treaty have objected mainly to the exception which permits the subsequent development of a French national atomic weapons program. French representatives successfully insisted there was no possibility of French ratification without this provision. This exception in turn led the other countries to obtain a 10-year priority for supplies of fissionable materials used in national programs already in being.

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In theory, these exceptions represent a considerable departure from the original concept of EURATOM as a "monopoly," but how serious they will prove in practice is conjectural. There is some doubt, in fact, as to the seriousness of French intentions regarding a weapons program. EURATOM ownership and control would continue to apply until such time as fissionable materials are incorporated in weapons, when it is presumed WEU controls would apply. Other national programs for which priorities are granted are limited in extent and would be dwarfed to insignificance by the production plans proposed by EURATOM's experts.

Critics of the Common Market have generally trained

their fire on the anticartel provisions of the treaty, the external tariff, and the special arrangements for agriculture. The CSC has not been very successful in coping with coal and steel cartels, and some observers fear that the compromises reached in the Common Market treaty may provide a serious loophole. The anticartel principles set forth, however, are far more stringent than existing national legislation, and their elaboration within the framework of the Common Market may bring some improvement.

Similarly, the much-criticized compromises concerning external tariffs, farm products, and the overseas territories essentially reflect the diverse interests of the member countries.

Some of the criticism ignores the fact that a customs union is by nature preferential. In view of the serious readjustments which will be required by the member countries, insistence on no protection for such politically critical areas as agriculture would seem unrealistic.

It seems clear that the major justification the six member countries will offer against charges of economic discrimination is the expectation that the overall economic gains will, in spite of any protective bias in the treaty, improve the prospects for world trade. This argument evidently carries some weight even with critics of the treaty. In Japan, for example, where there has been criticism of the treaty for creating "a strong

COMMON MARKET**TREATY PROVISIONS:**

In general, the Common Market extends to all sectors of economic activity the powers now exercised by the Coal-Steel Community over coal and steel. Specific arrangements include:

- (1) Internal Trade: removal of all export duties, import duties, and quantitative restrictions on commodity trade among the member states in accordance with an agreed schedule over a "transition" period of 12 to 15 years.
- (2) External Trade: a common tariff by the end of the transition period against imports from non-members--in general, a tariff no higher than the arithmetic mean of existing tariffs, although there are some important exceptions.
- (3) Agriculture: to be governed by a special regimen yet to be worked out in detail but possibly involving a minimum price system, long-term contractual arrangements, and a common organization of agricultural markets.
- (4) Labor and Capital: discrimination in employment based on nationality to be eliminated in principle by the end of the transition period; geographic and occupational mobility being encouraged through a special fund; capital movements to be liberalized.
- (5) Investment Bank: initially capitalized at \$1 billion to finance certain large projects in common, new industries, and the development of underdeveloped territories.
- (6) Cartels: generally outlawed, with some important exceptions, and leaving details to be decided later by community institutions.
- (7) Overseas Territories: those administered by France, Belgium, the Netherlands, and Italy to be incorporated into the Common Market on a five-year trial basis, with a \$580,000,000 fund to encourage their development.

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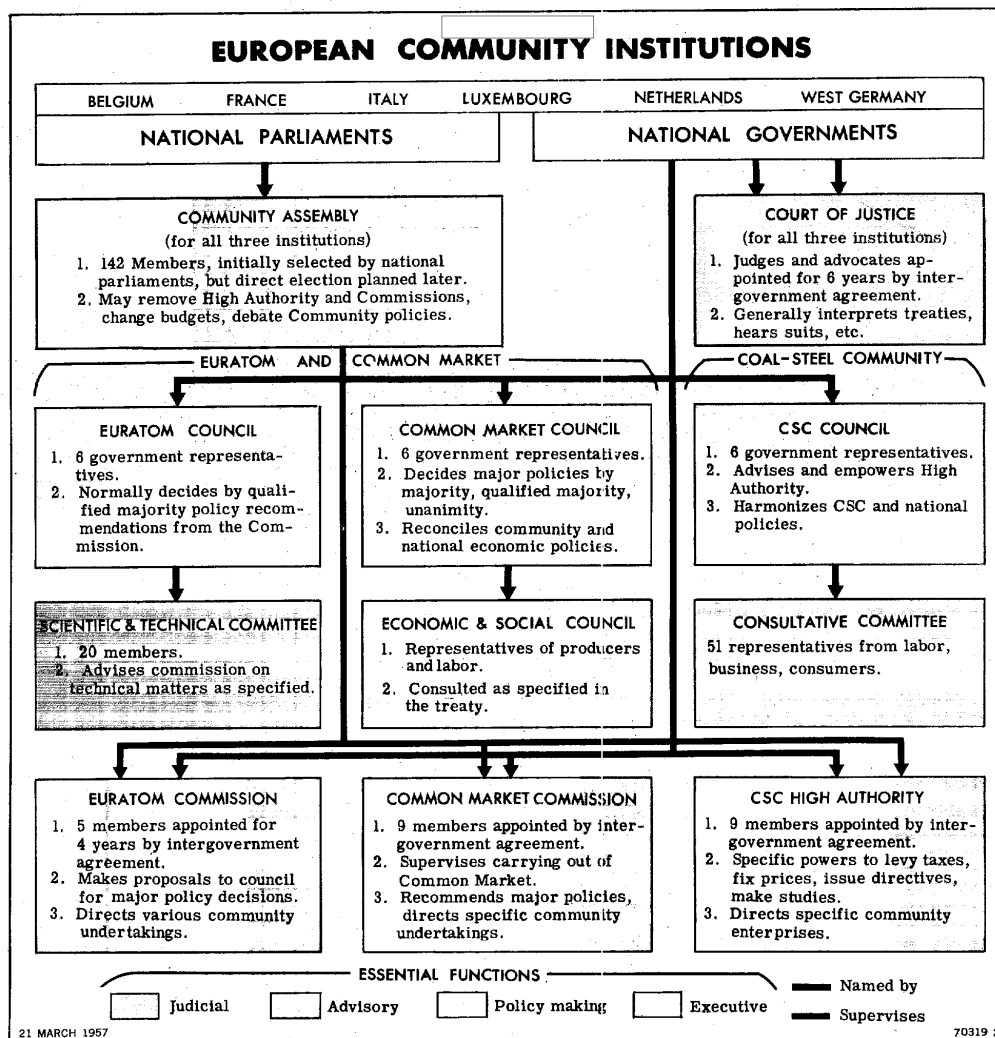
economic bloc which will discriminate against outsiders," there is even more serious concern lest Western Europe's increased productivity and lower costs of exports endanger Japan's competitive position in world markets.

Political Implications

The prime ministers of the six countries made it clear after their meeting in Paris on 20 February that the treaties are, in their opinion, only first steps--some of the

next steps foreseen by the drafters of the treaties are financial measures in support of the Common Market and the consolidation of European parliaments.

The architects of EURATOM and the Common Market believe that the political consolidation of the European continent is inevitable if these immediate projects succeed. The painful awareness of Western Europe's weakness in the face of the Hungarian revolt and the seizure of the Suez Canal



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has, they believe, vastly increased the attractiveness of this goal. They suspect that the gradual evolution of the British attitude toward the EURATOM and the Common Market--from opposition, to disinterest, to evident willingness to establish ties--is a response to specific facts, including the ability of continental statesmen to assume leadership.

While many of the members are reluctant to assume the burdens of French colonialism in Africa and are still generally skeptical of the prospects for European-African partnership, they nevertheless believe that French participation is worth this risk.

Soviet Opposition

The USSR made clear its opposition to both projects

in a statement sent to the countries involved on 16 March, repeating proposals made in April and July 1956 for an all-European organization for the peaceful utilization of atomic energy and for an agreement on all-European economic co-operation and trade.

Moscow repeated its familiar charges, aimed primarily at blocking French ratification, that EURATOM will lead to the lifting of all controls on equipping the West German army with atomic weapons, and that the Common Market will be dominated by American and West German monopolies.

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Moscow is evidently genuinely concerned about success of a united Western Europe. Soviet criticism, however, is unlikely to have any adverse effect on ratification prospects.

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ARAB BLOC DIVIDED OVER OIL TRANSPORT

Closure of the Suez Canal by Egypt and sabotage of the Iraq Petroleum Company pipelines in Syria have emphasized the divergence of interests between the Arab countries producing oil--Saudi Arabia, Iraq and Kuwait--and those controlling its transit--Egypt, Jordan, Lebanon and Syria. The decline in income of the producing countries has spurred new interest in transportation schemes which would reduce their dependence on the transit countries. At least six Western groups are now actively working on plans for pipelines from Iraq, Iran and Kuwait through Turkey to the Mediterranean.

In 1945, Middle East production accounted for only 7.5

percent--about 535,000 barrels a day--of world production. In 1956--before the Suez crisis--the Middle East produced almost 26 percent of the world's oil--about 3,865,000 barrels a day--and its reserves amounted to about 70 percent of the world's proved reserves.

Since existing transport systems could not handle increased production, pipelines were laid shortly after World War II from Saudi Arabia and Iraq through what later came to be Jordan, Lebanon, Syria and Israel. The Israeli line carrying crude from Iraq was closed in 1948 during the Arab-Israeli war.

As production increased, so did demands by the oil

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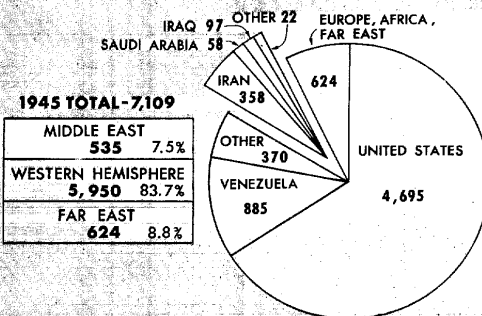
countries for a larger share of the profits and eventually the so-called 50-50 principle became the rule.

A current source of friction between the producing and transit countries results from the demand by the transit countries for a larger share of the revenues at the expense of the oil countries. In the Trans-Arabian Pipeline Company negotiations--for transit from Saudi Arabia through Lebanon, Syria and Jordan--no formula has yet been found.

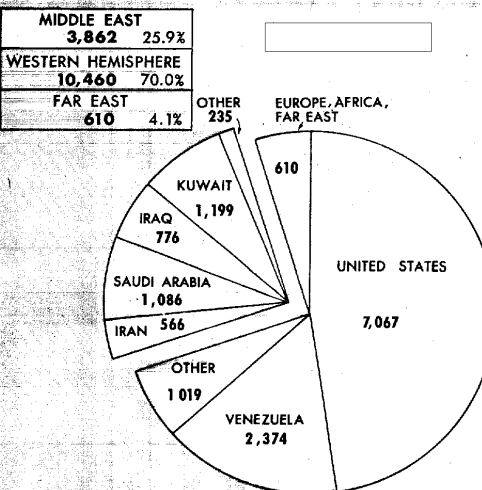
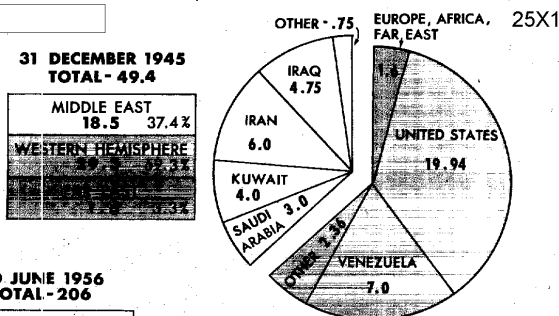
About 78 percent--2,197,000 barrels a day--of oil

exports from Saudi Arabia, Iraq, Kuwait and Qatar pass through areas under the influence of Egypt. As demonstrated during the Suez crisis, these transit facilities can be closed at will. The only facility controlled by the transit countries not cut during the crisis was the American-owned Tapline from Saudi Arabia which Egypt, for political reasons, allowed to remain operative. Nonetheless, Saudi Arabia enlarged the pipeline's guard force to forestall possible action by Egyptian-inspired fedayeen groups.

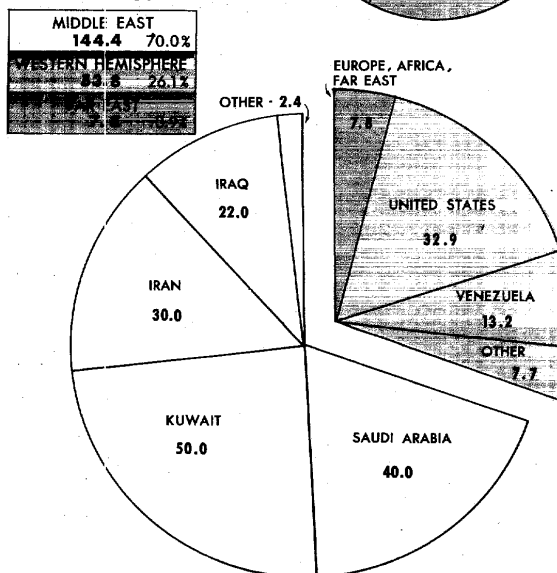
An open breach between Nasr and King Saud flared at

FREE WORLD CRUDE OIL PRODUCTION
 THOUSANDS OF BARRELS PER DAY


1956 TOTAL-14,932
(BASED ON 2ND QUARTER)


ESTIMATED FREE WORLD OIL RESERVES
 BILLIONS OF BARRELS


30 JUNE 1956
TOTAL-206



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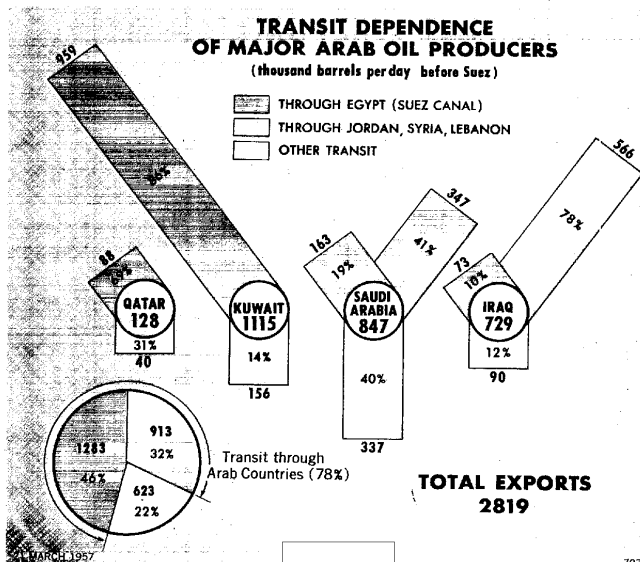
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This lever could provide another means for Nasr to influence strongly the positions taken by the oil countries.

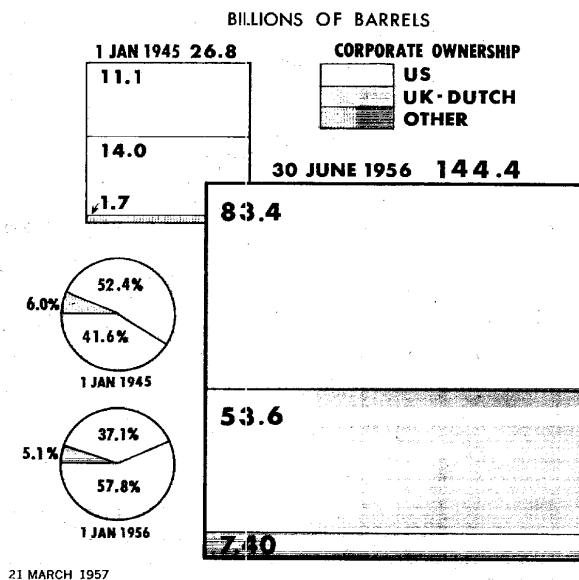
Iraq intended to propose at the Arab League Council meeting scheduled for 18 March that Egypt, Syria, Jordan and Lebanon recognize the interest of the producer countries in an uninterrupted flow of oil through the transit countries. Iraq wants to set up a consultation procedure should hostilities indicate a possible limitation of oil shipments.

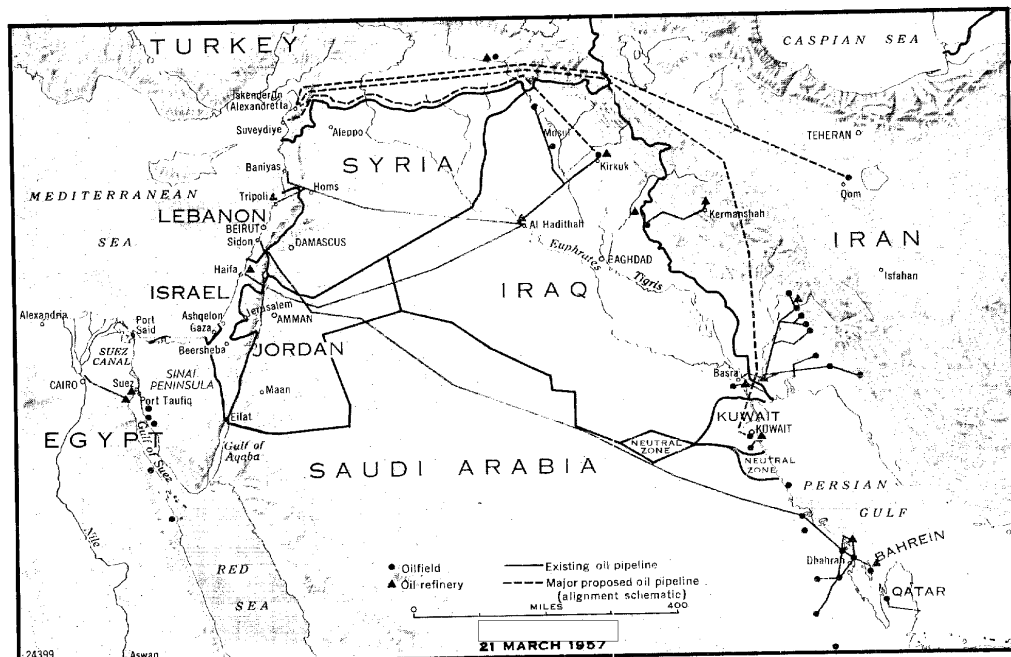
Saudi Arabia will probably support this proposal, which amounts to a formal recognition of Nasr's ability to affect the flow of the great bulk of Middle East oil.

As oil begins to flow again through Iraq's pipelines and

The constant reference by the Arab "have-not" countries to Saudi, Iraq and Kuwait oil as belonging to the Arab world has been another source of constant irritation to the oil countries. Suggestions that they should open their treasuries to the "have-not's" deepen the suspicions in producing countries of the designs of their poorer neighbors.

Control of transit routes, exercised largely under Cairo's direction, has been used as a lever against Iraq in recent months.

CONTROL OF MIDDLE EAST OIL RESERVES**SECRET**

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through the Suez Canal, the oil countries probably will push rapidly ahead on plans for alternate transport routes. Iraqi prime minister Nuri Said recently gave the Iraq Petroleum Company informal permission to proceed with plans to construct a pipeline through Turkey and another to connect the Kirkuk fields in northern Iraq to the head of the Persian Gulf.

At least six Western groups--including a German group--are now working on plans

to construct pipelines from Iraq, Iran and Kuwait through Turkey to the Mediterranean.

The proposed network of pipelines would skirt all the Arab nonproducing countries, passing entirely through the oil countries and strongly pro-Western Turkey. At present Turkey, Iraq and Iran have agreed in principle to these proposals. Saudi Arabia, not included in this plan, has expressed renewed interest in supertankers which would avoid transit through the Suez Canal.

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ANTI-SEMITISM IN POLAND

With encouragement from Moscow, the Natolin faction of the Polish Communist Party has been using the traditional anti-Semitism of the Polish people in order to discredit the liberalization movement. The Gomulka regime, proceeding cautiously to avoid popular disfavor, is

attempting to combat this tactic.

Poland's pre-World War II Jewish population of 3,300,000, the third largest in the world, was reduced by over 98 percent during the war. The 50,000 remaining are concentrated largely

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in six cities, mostly in the former German territories. There has been little change in traditional Polish anti-Semitic attitudes. "Anti-Semitism exists in Poland as a practice of daily life, a relic of former times enlivened and enriched today by politicians of yesterday," observed a high Polish official recently. Its recent resurgence reflects a deteriorating political situation in Poland in which the general population has apparently been easily aroused by demagogic practices.

Anti-Semitism in Politics

The majority of the remaining Jews are Communists, many of whom rose to high posts in the government and party as fanatic Stalinists in the post-war years. Many anti-Semites, particularly those youths who see these Jews as obstacles to their advancement and livelihood, contend that they dominate government, police, party, press and economic organizations. Resolutions have been introduced at party meetings to the effect that a small national minority without a working-class background must not be allowed to force its rule on the Polish working class, and many Jews in the party have been accused of concealing their true names and origins.

Soviet Role

The Soviet leadership has for some time associated Polish liberal tendencies with Jewish influences. Khrushchev was widely reported as saying at the time of his visit to Poland in March 1956 that there were "too many Abramoviches in the Polish party," and reportedly charged in October that Gomulka was trying to sell out Poland to American capitalists and Zionists. At the height of the recent ideological dispute in the bloc over Poland, the Soviet Communist Party in a circular letter to Soviet party organizations reportedly ascribed the

unfavorable developments in Hungary and Poland to "Jewish bourgeois nationalism."

Early last year, apparently with Kremlin sanction, the fight in Poland against the "thaw" became a fight against the Jews. Stalinists used the issue of anti-Semitism--which is an even stronger sentiment than anti-Communism in Poland--to attack the liberals. At the same time, to avoid acknowledging party responsibility for the conditions which sparked the Poznan riots, they sought to divert popular anger over Poland's difficulties to such high Jewish officials as economic boss Minc, security overlord Berman, and several top police officials.

While these individuals were ousted and some police officials arrested, large elements of the party refused to condone a fraudulent investigation and series of show trials over responsibility for the Poznan riots. It was in this effort to provide scapegoats, preferably Jewish, rather than be forced to liberalize party policy, that the dissident Natolin faction originally came together. Since Gomulka's accession to power, the Natolin faction and its supporters have continued the tactic of masking their political moves against the new regime with an appeal to Polish anti-Semitism.

With the resurgence of Polish nationalism and related anti-Semitism, many Jews have become disillusioned, believing they no longer have a place in the party or, in fact, in Poland. Reportedly almost half of the Jewish population has applied for emigration, largely to Israel; and, as emigration of Jews is no longer discouraged by the regime, between 1,000 and 1,500 now leave each month.

Gomulka's Attitude

Gomulka's personal attitude on the Jewish question is unclear. As a former underground

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leader, he may retain something of the underground's suspicion of the Jews, many of whom were thought to have been used as informers by the Nazis. He has a deep dislike and mistrust of intellectuals and doubtless feels that by facilitating the emigration of Jews, many of whom are intellectuals, he can be rid of a disruptive influence. He has done little to forestall the dismissals of large numbers of Jews from the party and government in his moves to pare the bureaucracy and "regularize" party cadres.

Nevertheless, the regime has recently taken steps to suppress overt anti-Semitism, which has alarmed its strong Jewish element and brought unfavorable publicity in the Western press. On 21 February, the Polish United Workers (Communist) Party central committee established a committee to deal with problems of national minorities, and the politburo reportedly has ordered all regional party organizations to expel members guilty of anti-Jewish activities.

Individuals are again being sentenced to prison for anti-Semitic activity, and a recent concerted police action has

liquidated a gang of robbers and extortionists which had been attacking Jews in Lower Silesia. These actions have been accompanied by an extensive press campaign warning against anti-Semitic outrages.

The regime has canceled preparations for the trial of three prominent Jews formerly in the security apparatus, Rozanski, Rombowski and Fejgin, and Gomulka is reported insisting that any trial of these persons must include non-Jewish defendants.

A specific condemnation of anti-Semitism was included in the joint communiqué resulting from the recent talks between the PZPR and the French Communist Party. This was worked in at the insistence of the Poles, who reportedly intended it as a condemnation of Soviet leaders, whom Gomulka's followers accuse of importing anti-Semitism into Poland.

Anti-Semitism is deeply rooted in Poland, however, and, when fostered for political ends by a determined faction with Soviet support, it probably cannot be overcome by the present regime.

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THE SOVIET SECRET POLICE TODAY

Since the death of Stalin in 1953, the Kremlin has taken steps to prevent the use of the Soviet secret police by any single leader as an independent instrument of political power or mass repression, but has not reduced their power to deal with threats to state authority. The secret police are firmly under party control and are therefore unlikely to become a decisive factor in any power struggle.

Party Control

After the experience with Beria, the new leadership was faced with the problem of returning the secret police to their earlier role as a reliable arm of the party dedicated to the preservation of the revolution and of denying control over them to any single individual. The organization was separated from the vast empire Beria had

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created in 1953 by merging the Ministries of Internal Affairs (MVD) and State Security (MGB), and police officials who had demonstrable ties with Beria or former security chief V. S. Abakumov were purged.



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The ties of the secret police to the MVD were finally severed in March 1954, when the Soviet government announced the organization of a Committee of State Security (KGB) attached directly to the Council of Ministers. It was given responsibility for foreign espionage, domestic counterintelligence, and the investigation of crimes against the state, e. g., espionage and treason.

To head the KGB, the Kremlin selected an able and experienced security officer of relatively low party rank, General Ivan Serov, only a candidate member of the party central committee at the time of his appointment but elected a full member in 1956. Like Stalin's former security chiefs Dzerzhinsky, Yezhov and Yagoda, he seems to have no political aspirations of his own

Many of the top officials in the new KGB are career military officers who had been quietly infiltrated into the state security service in the latter part of 1953.

The propaganda campaigns which accompanied the purges of Beria, Abakumov, and their cohorts had certain undesirable effects. The allegations of misuse of authority and high crimes by ranking state security officials served to heighten rather than allay popular distrust and fear of the police, and also made the rank and file within the KGB itself apprehensive.

During 1955, however, continued emphasis on "socialist legality," the large-scale amnesties of prisoners, and the absence of any mass repression by the secret police encouraged the populace and led to a noticeable easing of tension. On the other hand, a reminder of the continued existence of secret police organs, as well as reassurance to members of the secret police, was contained in Khrushchev's opening report to the 20th party congress in February 1956, in which he labeled distrust of "our loyal Chekists" as wrong and very harmful and said that much work had been done to strengthen the state security service.

KGB and Soviet Society

The drive for strengthened "socialist legality" has created the impression that the security service now functions within strictly defined legal limits and that it can no longer be used as an instrument of mass repression against the Soviet people. In fact, the trend in Soviet criminal law is toward an increase in the punishment exacted for antistate crimes, and a reduction in sentences imposed for lesser offenses, and suggests a distinct definition and limitation of those categories of persons subject to investigation by the KGB.

In the Soviet "vigilance" campaign, the people are repeatedly warned to be on guard against spies, diversionists and anti-Soviet elements, but they are cautioned that

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"revolutionary vigilance" has nothing in common with the indiscriminate and unfounded denunciation which enabled Beria to distort vigilance for his own gain. These attempts on the part of the regime to make vigilance more discriminatory will also tend to reduce the number of cases which the KGB is required to investigate and may make real vigilance more effective.

The authority of the secret police has apparently not been restricted, however. The few safeguards over individual rights which have been established seem to apply only in cases involving the civil police or public prosecutors. When the latest edition of the RSFSR criminal procedural code was published in February 1956, it showed that the special rights accorded to state security organs in the preliminary investigation of especially serious cases were still in effect. A speaker at the February 1957 session of the Supreme Soviet noted that, "of course," cases handled by the KGB were subject to special laws.

In addition, the proposed changes in punishment have not been written into law. Thus, the KGB remains available as an instrument of repression, but the regime's recognition that continued use of terror as the primary means of state control is self-defeating makes the use of mass repression unlikely except in the gravest circumstances. During the past year, ideological exhortations, warnings and dismissals were regarded as sufficient countermeasures to unrest and nonconformism.

FUNCTIONS OF KGB AND MVD**KGB**

(KGB is roughly comparable to a combination of the FBI, CIA, and the Secret Service)

Collects foreign and domestic intelligence

Investigates treason, sedition, sabotage, espionage

Guards Soviet VIP's at home and abroad

Conducts security investigations and issues clearances

MVD

Guards borders and transportation rights of way

Administers forced labor system and prisons

Carries out ordinary uniformed police functions

Maintains fire departments and registers vital statistics

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the party, as Beria attempted to do. The administrative department of the party central committee apparatus has control over the assignment of cadres in the secret police--a power formerly exercised by Stalin's personal secretariat--and party officials even down to the oblast level now are empowered to confirm the appointments of state security officers in their areas of jurisdiction. Every organizational level of the KGB has its corresponding party unit, and there is good reason to believe that all commissioned officers in the KGB must belong at least to the Komsomol, and preferably to the party.

Role in Power Struggle

For the present, it seems unlikely that the KGB by itself would be the decisive factor in any power struggle in the Kremlin.

Strengthened party supervision of the security service makes it improbable that the KGB could ever be used against

Absolute control of both party and secret police would appear to be the sine qua non for the emergence of a new Stalin. Control of either group is unlikely to be achieved without first undermining the collective leadership as such.

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